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BUREAU OF INTELLIGENCE AND RESEARCH - ANALYSIS: October 11, 1981

1. USSR: WEST SIBERIAN PIPELINE PROJECT ON TRACK

The signing of general contracts at the end of September moves Moscow closer to completing negotiations--under way for nearly two years--on the supply of Western equipment for the Siberia-West Europe gas pipeline. The price of the Soviet gas remains a major sticking point. The West Europeans, however, are determined to push forward--despite misgivings in Washington--and are hopeful that pressure to complete the deal before Brezhnev's visit to Bonn in November will give them a negotiating advantage over the Soviets.

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The Soviets have placed at about \$7.4 billion the total value of Western equipment and materials for the project. These calculations are for a project that has been reduced from a double to a single line and which will exploit deposits at Urengoy rather than the more northerly fields at Yamburg as originally planned. A \$1 billion general contract announced by the FRG-French consortium of Mannesmann and Creusot-Loire will provide for 23 of the 41 compressor stations required by the 5,000-kilometer pipeline; the remainder are to be supplied by the Italian firm Nuovo Pignone.

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Under great pressure to have the pipeline operating by the mid-1980s, the USSR gave its negotiators an unusual degree of authority. Their quick decision to move forward was based on the ability of the firms to supply the required equipment within the limited time frame and the availability of favorable export credits. Moscow beat by two days the deadline for the expiration of a very favorable French credit line. A variety of credits from the Germans (still only an agreement in principle), Italians, British, Japanese, and Belgians will support sales of pipe, compressors, and other equipment from those countries.

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While talks with Ruhrgas have stalled over the price issue, the Germans believe that the pressure now is on the Soviets. If Ruhrgas is the first of the European customers to agree on a price, as seems likely, it will have established the "marker" for other price discussions. The price level also will affect the volume of gas eventually sold. Ruhrgas is concerned, however, that the French may soon agree for political reasons to a high price for Algerian gas, leading the Soviets to demand a similarly high price. The Europeans are generally favorably disposed to indexing the gas price to crude oil, but not to establishing price parity with crude oil.

State Dept. review completed

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